



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Alaska Outer Continental Shelf Region
949 East 36th Avenue, Suite 300
Anchorage, Alaska 99508-4363



28 FEB 2002

Mr. Kevin Bolton
AEC Oil & Gas (USA) Inc.
US Bank Tower
950 17th Street, Suite 2600
Denver, CO 80202

Dear Mr. Bolton:

The Minerals Management Service (MMS) has completed review of the proposed McCovey Exploration Plan (EP) submitted on January 25, 2002. The EP proposes to drill an exploratory well (and possible side track) using the Steel Drilling Caisson (SDC) during the 2002/2003 winter season. Rig mobilization, driving of 30 inch structural casing, vessel supply and fuel-loading activities will be conducted in August prior to the fall bowhead whale migration after which time the SDC will be placed in a "go quiet" mode. After the fall bowhead whale migration and no sooner than November 1, 2002, AEC Oil & Gas (USA) Inc. (AEC) will commence drilling to set intermediate casing, and suspend further activities until the MMS determines that stable solid ice conditions are present at the drilling location. Following a determination by the MMS, the AEC will complete drilling activities as described in the EP.

The MMS hereby approves your EP in accordance with 30 CFR 250.203(i) subject to the terms and conditions noted below.

1. Driving the 30 inch structural casing can not be initiated until the MMS has approved the Application for Permit to Drill (APD) in accordance with 30 CFR 250.414. The MMS can not approve an APD until the State of Alaska has issued a final coastal consistency concurrence on the EP, or consistency is conclusively presumed in accordance with 30 CFR 250.203(p).
2. The text and materials for the final and complete environmental orientation program as outlined in Appendix H of the EP must be submitted to this office prior to mobilization of the SDC. The program must be shown to the AEC and its contract personnel involved with the project proposal and should include personnel involved with the SDC mobilization. A record of personnel who have received the training should be retained for MMS inspection upon request.



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3. AEC must provide this office with an ice-monitoring plan to enable MMS to make a determination that solid ice conditions are present at the drill site. The plan must provide for measurement of ice thickness and concentrations within a 2-mile circumference (which exceeds the projected plume fall out) around the SDC and reporting conditions to this office on a daily basis starting November 15 (or earlier if AEC anticipates drilling prior to November 15). Drilling below the intermediate casing can not commence until MMS has determined and advised AEC that the ice is contiguous and of sufficient thickness to support the onsite equipment deployment and containment strategies as described in the ODPCP within a 2-mile circumference of the drill site.

AEC must continue to monitor and report ice conditions on a daily basis for the duration of the drilling program. In the event, an open-ice lead develops within a 2-mile circumference of the SDC, the MMS must be notified immediately. The MMS will evaluate the nature of the open lead and the potential to impede on-ice response activities, forecast whether the lead will persist over an extended time, and the status of the drilling activity. The MMS may direct suspension of drilling operations until the lead no longer impedes on-ice response capability.

The MMS retains the authority to suspend drilling activity above the intermediate casing point if there is evidence of significant oil accumulations and on-ice response capabilities are impeded by real time ice conditions.

4. AEC must provide this office with 24-hour advance notice prior to each of the following activities: rig mobilization, rig set down, rig supply, fuel transfer, driving the structural casing, and commencement of drilling the intermediate casing hole. The notice must include confirmation that these activities have been coordinated with the Alaska Eskimo Whaling Commission (AEWC) in accordance with the final Conflict Avoidance Agreement.

The MMS has also completed review of the Oil Discharge Prevention and Contingency Plan (ODPCP) submitted in support of the McCovey EP. The ODPCP includes a worst-case oil spill discharge scenario for an exploratory well blowout in accordance with 30 CFR 254.26. The scenario demonstrates the capability to deploy sufficient resources to contain and recover oil spill volumes greater than the daily blowout discharge volume within the first 15 days of the response and to maintain that level of response indefinitely (i.e., longer than the minimum 30-day standard under MMS regulations) during the solid ice drilling season. The ODPCP incorporates the Alaska Clean Seas (ACS) technical manual that provides for additional oil spill response tactics, equipment and resources to be deployed in the unlikely event an oil spill were to occur or persist during other environmental conditions. The MMS approves the ODPCP in accordance with 30 CFR 254.50 subject to the terms and conditions below.

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1. Proof of contractual agreement or membership agreements with ACS must be provided pursuant to 30 CFR 254.25. This documentation must be submitted to this office before the MMS will approve an APD.
2. Demonstration of Oil Spill Financial Responsibility must be submitted in accordance with 30 CFR 253.40 and approved by the MMS in accordance with 30 CFR 253.43 before MMS will approve an APD.
3. During the fuel transfer operation at the SDC, following mobilization to the McCovey drill site, a containment boom must be pre-deployed to facilitate containment and recovery in the event of a fuel transfer spill.
4. A number of technical comments on the ODPCP updating notification lists and clarification on the role and function of the Regional Response Team were provided by the Office of Environmental Policy and Compliance (copy enclosed). The ODPCP should be revised in response to these comments and a revised copy of the plan filed with this office before the MMS will approve the APD. MMS notes that other revisions to the ODPCP may result following Alaska Coastal Management Plan (ACMP) review and recommend that AEC withhold submitting a final revised plan until all review processes are complete.
5. The MMS will require AEC to conduct an on site response drill to verify the ability to implement the on ice oil spill response tactics, and a tabletop communication exercise to demonstrate the spill management team organization, communication and decision in managing a response. The MMS will work with AEC, the US Coast Guard (USCG) and Alaska Department of Environmental Conservation (ADEC) in developing the nature, scope and timing for both the drill and tabletop exercise.

A number of comments on the EP and the ODPCP were submitted. A complete set of comments is enclosed for your information and reference. Principle concerns raised include broken ice response, effects to Bowhead whales and other subsistence resources, the capability of the SDC to operate at the drill site, and the integrity of the fuel barge. The MMS has fully considered the concerns and issues raised in the comments. The MMS prepared an Environmental Assessment on the project. The MMS has concluded that the nature and scope of the project design to conduct drilling activities in the winter season, MMS safety and pollution prevention regulatory requirements, the oil spill response capabilities detailed in the ODPCP in combination with the terms of our approvals of the EP and ODPCP, and AEC commitment to ongoing coordination and consultation with the AEWC mitigate the concerns and issues that have been raised.

The MMS understands that the AEC has gathered additional information on the type and operating experience of the fuel barge that will be used to transport fuel to the SDC from the Mackenzie Delta. This was one of the concerns raised by reviewers. The MMS requests the AEC provide this information to the MMS office so that we can forward it to interested parties.

Mr. Kevin Bolton
AEC Oil & Gas (USA) Inc.

If you have any questions regarding this action, please contact me at 907.271.6190.

Sincerely,



Jeff Walker
Regional Supervisor
Field Operations

cc: Glenn Ruckhaus, Lynx
Glenn Gray, ADGC
Jeff Mach, ADEC
Mark Myers, DNR
George Ahmaogak, Mayor, North Slope Borough
Edith Vorderstrasse, Mayor, Barrow
George Tagarook, Mayor, Kaktovik
Eli Nukapigak, Mayor, Nuiqsut
Martin Oktollik, Mayor, Point Hope
John Hopson Jr., Mayor, Wainwright
Arnold Brower Jr. ICAS
Bill Tegoseak, ICAS
June Childress, Tribal Council of Wainwright
Rex Tuzroyluk, Native Village of Point Hope
Thomas Nukapigak, Native Village of Point Lay
Patsy Aamodt, Native Village of Barrow
Leonard Lampe, Native Village of Nuiqsut
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